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An Assessment of the Effectiveness of the Monetary Dialogue on the ECB's Accountability and Transparency: A Qualitative Approach

The European Central Bank has been seen by some observers as lacking transparency and accountability. The following article examines whether the monetary dialogue between the European Pariliament's Committee on Economic and Monetary Affairs (ECON) influences the ECB's behaviour in this regard. This is done by comparing the issues raised by the ECON and its panel of experts and the changes in the ECB's procedures and arrangements.

In the euro area, the European Parliament has the task of holding the European Central Bank (ECB) to account. In this paper we take a closer look at the most important part of the relation between the ECB and the European Parliament, namely the quarterly monetary dialogues between the Committee on Economic and Monetary Affairs (ECON) and the ECB. We investigate whether this monetary dialogue influences the ECB's transparency, communication policy and accountability by comparing the issues raised by the ECON and its panel of experts and the changes in the ECB's procedures and arrangements. In this paper we approach this subject qualitatively.

Based on our results we conclude that the ECB is highly responsive to the ECON. Its response can be divided into two parts. We distinguish between immediate response (comments by the President of the ECB during the monetary dialogue) and delayed response (the degree to which the ECB incorporates points raised during the dialogue in its policy).

This paper provides a short background on the monetary dialogue between the ECB and the European Parliament. We then describe the methodology and the data used and look into the contribution of the panel of experts and the monetary dialogue itself. To complete the analysis, we have sifted through all the ECB's press conferences and press releases to make a list of changes at the ECB. Finally, we compare these lists and present some conclusions.

The Background of the Monetary Dialogue

Besides the fact that the Treaty on European Union[1] gave the ECB a very high degree of independence, it also contained provisions regarding the issues of transparency and accountability. According to Article 113 (3) of the Treaty and Article 15.3 of the ESCB Statute, the President of the ECB is required to present an annual report to the European Parliament. The same articles go on to state that, "the President of the ECB and the other members of the Executive Board may, at the request of the European Parliament or on their own initiative, be heard by the competent Committees of the European Parliament".

Based on these requirements it was agreed that the President of the ECB would appear four times a year before the ECON. Each session of the monetary dialogue starts with the statement from the President

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[1] Later revised by the Treaty of Amsterdam. The articles mentioned in this section are from the second chapter.

of the ECB explaining in detail the central bank's assessment of economic and monetary developments at the time. After this introduction the 42 members of the ECON have the opportunity to ask their questions. Usually these sessions last approximately two hours. Shortly after they have taken place, verbatim transcripts of these sessions are published on the ECON's internet site.

Methodology and Data

Doing research on this or a similar subject involves certain difficulties, as the data used are not quantitative but qualitative in nature. In order to be able to present a list of subjects mentioned in the monetary dialogue certain steps were followed. First, we constructed a framework to be able to determine when the mention of a subject had to be included in the aforementioned list. One possibility was to include only those subjects where it has been *clearly suggested* that the ECB should take action with regard to the subject in question. This approach has two significant negative side-effects however. First, it is necessary that there be an explicit, official suggestion, such as a resolution. Second, this approach would not account for the frequency with which each subject was mentioned. With regard to the former, it is very well possible that the words used *imply* that a suggestion is being made but this would have to be left out because an *explicit suggestion*, such as a resolution or a bill is absent.[2] To control for this handicap one could decide to include those implicit suggestions, but then another difficulty would immediately prop up: it would be a highly subjective choice what to include and what to exclude. Furthermore, as this choice would have to be made on a case-by-case basis, the probability is high that it would either, unintentionally, be inconsistent or would be perceived as such. In turn, as subjectivity would only be increased and a certain "choice-bias" would emerge, this procedure clearly would not satisfy the desire to make the process of the analysis as clear and as transparent as possible. Therefore we opted for the second option, namely to include those subjects *mentioned* (instead of suggested) by members of the ECON in the monetary dialogue.

The next step is to make a clear distinction between subjects related to transparency and accountability, and those related to other tasks of the ESCB.[3] In selecting what subjects are to be included in this paper we used the following rule: only those subjects that would cause *profound changes* in the transparency or accountability of the ECB have been selected. Profound changes are defined as potentially forming a breach in the policy of the ECB in those areas. The criteria we used for defining subjects affecting transparency and accountability, and including them in the analysis, are as follows:[4]

- formal objectives of monetary policy (goals as defined in the Maastricht Treaty) and the definition of price stability
- the explanation of how information is used and analysed for monetary policy purposes (e.g. publication of macroeconomic models and forecasts, minutes of the meetings)
- the stability oriented monetary policy strategy and the openness regarding it
- accountability with regard to the target.

We have designed this framework, with its rules, definitions and procedures, in order to eliminate subjectivity as far as possible.

The data needed to construct the list of subjects mentioned by the panel of experts was obtained from the briefing papers provided to the ECON. For the list of subjects mentioned during the monetary dialogues we have used the verbatim transcripts of each session, with the exception of the 17 April 2000 session, of which the transcripts are not available. In total 20 sessions were considered. Both the papers by the experts and the verbatim transcripts of the monetary dialogue sessions can be found on the ECON internet site at europarl.eu.int/comparl/econ/emu/default_en.htm.

To determine what changes the ECB implemented until December 2003, we have used the ECB's press releases starting from 1 January 1999 up to 31 December 2003. These can be found on the ECB's internet site at ecb.int, under "press releases". In addition, we have used the ECB's statements and transcripts of those press conferences related to monetary policy actions up to 31 December 2003. Press conferences that have taken place on 6 March,

[2] The European Parliament does not have the authority to change the ECB Statute. This probably explains why the resolutions are infrequent. Moreover, due to this fact bills are, by default, non- existent.

[3] These other tasks are: to conduct foreign exchange operations consistent with the provisions of Article 111 (ex Article 109) of the Maastricht Treaty; to hold and manage the official foreign reserves of the member states and to promote the smooth operation of payment systems (European Central Bank: The Monetary Policy of the ECB, Frankfurt 2004).

[4] These criteria were constructed using S. C. W. Eijffinger, P. M. Geraats: How Transparent are Central Banks?, CEPR Discussion Paper, No. 3188, 2002.

30 August and 13 December 2001 and 3 January 2002 have not been used, as they concerned various issues other than monetary policy. The statements and transcripts can also be found on the ECB's internet site, under "calendars and events".

Subjects Raised by the Panel of Experts and the ECON

After the analysis of the briefing papers provided to the ECON by the panel of experts we have been able to put together a list of subjects that have frequently received attention (see Table 1). We have used the same criteria as reported above for this purpose.

With regard to the subjects mentioned by the panel of experts, it should be noted that, while the panel of experts strongly criticises the ECB on a number of issues, most of the panel members also highly praise its monetary policy actions. It is also interesting to note that not only the panel members have this view, but also some of the ECON members (see for instance comments made by members Agag Longo, Von Wogau and Goebbels during the November 2001 monetary dialogue). It can be stated that the way the policy actions were taken and communicated to the outside world have been criticised, but not the actions themselves.

Table 1
Subjects Mentioned by the Panel of Experts

Subject	Frequency[1]
The stability oriented monetary policy strategy	30
The secondary objective as described in Article 105 of the Treaty	23
The definition of price stability as defined by the ECB	22
Publication of (inflation) forecasts	7
Publication of the minutes of meetings of the Governing Council of the ECB	10
Improvement of published (inflation) projections	10

[1] Frequency relates to the number of papers in which these subjects have been mentioned.

Table 2
Subjects from Monetary Dialogues

Criterion	Frequency
Primary and secondary objective, including the definition of price stability	66[a]
The stability oriented monetary policy strategy and communication	60
Forecasts	24[b]
Accountability	2
Economic reports	1

[a] Including calls for a lower interest rate. These calls have been included because their high frequency signals to the ECB that the ECON wants the central bank to redefine its definition of price stability so that it can do more with regard to its secondary goal.

[b] Including calls on the ECB to publish its forecasts as well as calls to improve them after the ECB decided to publish them.

Using the transcripts of the question-and-answer sessions we constructed a similar list for subjects raised by the ECON (see Table 2).

Some points have to be made here with regard to Table 2. The accountability criterion does not include comments on the weak exchange rate of the euro. Although this point was mentioned very regularly, it is not possible to hold the ECB accountable for it. The reason is that the ECB does not have an exchange-rate target. Furthermore, comments regarding the secondary objective as defined in Article 105 of the Maastricht Treaty were included in the second criterion. The reason is similar to the one with regard to the exchange rate. The ECB has price stability as its primary goal. Therefore, in order to assess the ECB's performance on its secondary objective it is imperative that it fulfils the first one over the medium term. Despite the fact that the ECB has not clearly defined what it means by "medium term", it can safely be assumed that it should not be measured in months but rather in years.[5] A strong case can be made for the argument that the ECB cannot be held accountable for developments in inflation in the first two years of its existence. This follows from the fact that monetary policy is inevitably linked with long and variable lags. Therefore, the ECB's monetary policy actions kick in only after a certain period, generally accepted to last somewhere around two years.

The ECON seems to have understood this. We would say that it is a very positive sign and a fact we can only applaud and welcome. However, given that the ECB has been operative for five years now, we are nearing a point in time when the performance of the ECB with respect to its goal of price stability should be assessed by the ECON on a regular basis.

Stability-oriented Monetary Policy Strategy and Communication

In the monetary dialogue, issues relating to the stability-oriented monetary policy strategy and communication with regard to this policy strategy surfaced regularly.[6] Attention was focused on two main features:

[5] S. Hämäläinen: The ECB's Monetary Policy – Accountability, Transparency and Communication, speech, 14 September 2001.

[6] For more on the ECB's strategy see European Central Bank: The Monetary Policy of the ECB, Frankfurt 2004.

- the publication of minutes and votes of the meetings of the Governing Council of the ECB
- the two pillars of the aforementioned strategy, especially the relevance of the first pillar.

The binding element is the notion that the public and the financial markets have encountered certain difficulties in understanding the ECB. This unclear communication in turn leads to relatively high uncertainty and lack of confidence in the ECB with all its negative consequences, such as rendering its monetary policy less effective.

Minutes of the Meetings

Apart from the view held by the ECON that publishing minutes fosters transparency and accountability it also has the benefit of increasing the understanding of the arguments presented. For a long time the ECB did not even publish the arguments for and against any of its decisions. As we shall see later on, only recently the ECB has started to publish all the arguments that have been put on the table during its meetings. The fact that even experts have trouble reading and understanding the ECB strengthens the ECON's view with regard to this point. Finally, the publication of minutes in some form would make it possible to get an indication of likely policy actions in the future. Ever since the ECB took over the conduct of monetary policy in the euro area, there have been occasions that seem to justify the ECON's case. Some of them have been mentioned both by the members of the ECON and by the panel of experts, such as the now famous interest rate decrease of 10 May 2001.

The panel of experts has a somewhat different view on this particular issue than the ECON. Although Eijffinger[7] argues that the transparency of monetary policy increases if the minutes of the meetings and/or the decisions including all arguments presented (in favour of and against) are published, he recognises that this way of communicating is unclear as the ECB does this by means of press conferences that follow immediately after the relevant meeting of the Governing Council. In his view the minutes should contain an analysis of the environment in the euro area, an estimation of the risks to price stability and a consistent and logical explanation of decisions based on the first two reasons given, but not the voting behaviour of the members of the Governing Council. Regarding calls for the publication of voting behaviour, some argue that this would in essence do more harm than good as it could be interpreted along national lines, although all members of the Governing Council share a collective responsibility.[8] This, in turn, could result in pressure being put on individual members of the council. Because of this, Wyplosz argues, "as long as interpretation along national lines is likely to occur, minutes of the meetings should not be published".[9]

These views do not support calls from ECON to the ECB to publish minutes. However, there is also another line of argument that goes as follows. The ECB is seen by some observers as lacking transparency and accountability. These shortcomings can only be solved via institutional reform, but these changes could and should be anticipated by some modest reform as proposed by Mazier.[10] One of the changes Mazier proposed is the "full publication of internal debates and votes of the ECB and a much richer dialogue with the European Parliament". Finally, it has been argued that by publishing minutes conspiracy theories, such as the suggestion that the ECB sometimes has deliberately delayed taking certain action in order to show that it is indeed independent and cannot be influenced, would vanish.[11]

The ECB has repeatedly stressed that communication with the public is very important to the central bank. However, the publication of minutes has been put off on two grounds. First, as after every meeting of the Governing Council of the ECB when monetary policy is discussed its decisions and reasoning are published, it is not clear, as Duisenberg stated during the April 1999 monetary dialogue, "…that publishing a discussion itself without even mentioning the names would add anything to what we already publish". Giving a full account of the discussions would "create more confusion as in the discussion attitudes and opinions are adjustable" (monetary dialogue November 1999). Furthermore, the call for any publication of minutes including the voting pattern assumes that decisions are indeed taken by vote. According to Duisenberg however "it rarely occurs" that the Gov-

[7] S. C. W. Eijffinger: Should the ECB Governing Council Decide to Publish its Minutes of Meetings?, Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 2001.

[8] See also O. Issing: The Eurosystem: Transparent and Accountable or "Willem in Euroland", in: Journal of Common Market Studies, Vol. 37, No. 3, 1999, pp. 503-519.

[9] C. Wyplosz: The ECB Communication Strategy, Briefing Paper for the Economic and Monetary Affairs Committee of the European Parliament, 2001.

[10] J. Mazier: The Conduct of Monetary Policy and an Evaluation of the Economic Situation in Europe, Briefing Paper for the Economic and Monetary Affairs Committee of the European Parliament, 2000.

[11] D. Gros: Improvement of the Democratic Accountability Process, Briefing Paper for the Economic and Monetary Affairs Committee of the European Parliament, 1999.

erning Council even takes a vote (monetary dialogue May 2001).

Second, making public how individual members have voted (in cases where a decision was taken by vote) could expose them to pressure and make internal debate on monetary policy issues less free than it is at the moment. In this case, arguments presented by individual members would become well-prepared and carefully edited, written documents that every individual member would read out in the meeting, de facto "killing" discussion within the Governing Council. The notion that the monetary policy strategy of the ECB is unclear is strongly rejected by the central bank with the argument that it is the only central bank that even has a strategy and goes out of its way to explain it.

The Two-pillar Strategy

Views on the usefulness of the monetary pillar in the monetary strategy of the ECB are much more similar between ECON and the panel of experts than those on the previous issue.

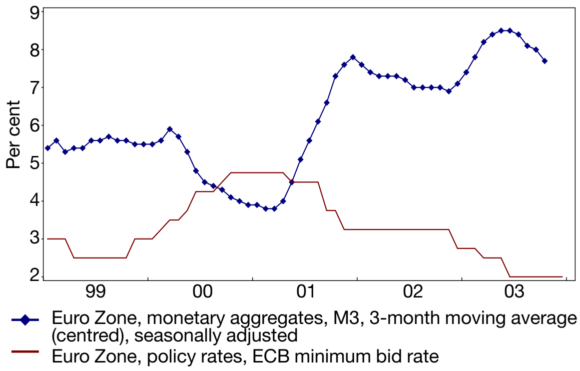
The two-pillar strategy, and the monetary pillar in particular, is attacked on two accounts:

- first, it is said to be confusing and to mislead people;
- second, it is attacked on the prevailing view that the connection between money growth and inflation is not so evident.

The academic world has not been as kind to the ECB on this issue as it has been with regard to the publication of minutes. This pillar of the ECB's monetary strategy has been criticised by almost everyone. In a paper by Begg et al.[12] it was described as "flawed beyond repair" and looking "extremely ridiculous, giving perverse signals that the ECB probably ignores", a view widely shared by the panel of experts.

The monetary pillar of the stability-oriented monetary policy strategy is said to be confusing to the public as the growth rate of the M3 monetary aggregate has regularly been higher than the reference value, but the ECB does not react to this (see Figure 1). The ECON has suggested that it is also confusing because it looks as if the ECB follows one pillar only, while officially there are two pillars. The argument is that it reacts to the danger of high inflation but not necessarily to the overshooting of its reference value for monetary growth. Begg et al. show that the correlation between the money growth indicator used by the ECB and its interest rates decisions is not even equal to zero but that it has the wrong sign, i.e. in times when monetary growth was *higher* than the reference value, the ECB actually *lowered* interest rates. Therefore, as the ECB reacts to an increase in expected inflation but not to abundant money growth, it seems already to be acting as if it had one pillar only. To end the confusion regarding its strategy, it should officially declare this.

Figure 1
M3 Growth and ECB Interest Rate



Source: EcoWin.

Another source of confusion is the strategy itself. The ECB is said to pretend that both pillars point in the same direction.[13] It can therefore revert to either of the two pillars to justify interest rate changes.[14] While one of its predecessors, the Bundesbank, had enough credibility to regularly ignore the data on monetary growth, the ECB has not (yet). Ignoring monetary growth or justifying it in an inconsistent way only increases confusion and uncertainty, according to Mazier.[15] Finally, potential conflict between the two pillars exists as the one could point towards increasing inflationary pressure, while the other could point in the other direction.[16] As it is not clear what weights are given to the two pillars, this only adds

[12] D. Begg, F. Canova, P. de Grauwe, A. Fatas, P. R. Lane: Surviving the Slowdown: Monitoring the European Central Bank, CEPR, London 2002.

[13] D. Gros: The ECB's Unsettling Opaqueness, Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 2001.

[14] See also S. C. W. Eijffinger: Should the European Central Bank Use M3 to Assess Price Stability?, Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 2001.

[15] J. Mazier: M3, Inflation and the ECB, Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 2001.

[16] P. Bofinger: The Conduct of Monetary Policy by the European Central Bank According to Article 105 of the Treaty versus the Real Economy, Briefing paper for the Monetary Subcommittee of the European Parliament, 1999.

to the confusion that already exists. In such a case nobody has even the faintest idea which pillar the ECB will allow to prevail. It is clear that this increases the degree of uncertainty already associated with the ECB by many observers. On another note, it is questionable whether the M3 is a good indicator at all.[17] Svensson[18] has suggested that experience from a majority of countries shows that shifts in the money demand function in the long run are not uncommon and therefore may occur again any time, although he admits that there is some evidence that the long-run money demand for the euro area is stable. Even without these shifts, the existing correlation between money growth and inflation is often misunderstood according to Svensson,[19] because, as the two variables are endogenous variables, nothing can be said about the direction of causality. Even if the inclusion of a monetary target is allowed for, it is claimed that the ECB is using the wrong one, as it has been shown by Svensson[20] that the real money gap is the target to use rather than the currently used nominal money-growth indicator.[21]

The ECB seems to have taken note of these results[22] but does not appear to be acting on them.[23] Finally there has also been confusion about how to interpret the M3 growth figures.[24] This confusion makes statistical corrections like the one on 10 May 2001,[25] no matter how justifiable they may be, nullify the very reason why this pillar exists, namely its transparency.[26]

Members of the panel of experts and of ECON are unanimous in presenting the solution: a combination of the first and second pillar in one pillar only, de facto abolishing the money growth pillar. This would make monetary policy decisions less confusing and easier to explain and would therefore enhance the credibility of the ECB. A nominal anchor should not be monetary growth but flexible inflation forecast targeting.[27] Monetary growth would then be reduced to *an* indicator (as monetary growth does contain valuable information) instead of being *the* indicator. It is questionable whether it deserves such a prominent role.[28] Svensson rejects the argument that this change, or any change in the monetary policy strategy of a central bank for that matter, would negatively affect credibility. On the contrary, it would, in his view, most likely improve it.[29]

Finally, the monetary policy strategy of the ECB is still seen as a combination of monetary targeting and inflation targeting. This is illustrated by views from both the ECON and the panel of experts. Bean[30] for example has described the second pillar as "not a million miles away from a formal inflation target" while one of the members of the ECON, Mr. Katiforis, referred to it as "a lot of words for an inflation target". The ECB sticks to its line that the stability-oriented monetary policy strategy is "neither monetary nor inflation targeting nor even a mixture of these two approaches well known to observers".[31]

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17 See for example G. de la Dehesa: Is M3 a Useful Tool to Assess Price Stability?, Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 2001. However, some empirical research shows that there is in fact a structural stability in the European money demand function for M1 and M3 (see for example V. Clausen and J. R. Kim: The Long-Run Stability of European Money Demand, in: Journal of Economic Integration, Vol. 15, No. 3, 2000, pp. 486-505).

18 L. E. O. Svensson: What is Wrong with the Eurosystem's Money-growth Indicator and What Should the Eurosystem do About it?, Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 2000.

19 L. E. O. Svensson: A Reform of the Eurosystem's Monetary Policy Strategy is Increasingly Urgent, Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 2002.

20 L. E. O. Svensson: What is Wrong ..., op. cit.; L. E. O. Svensson: A Reform of the Eurosystem's ..., op. cit.

21 The real money gap is the difference between the current real money stock (nominal money stock deflated by a commonly used inflation measure such as CPI) and the real money stock that would result in a hypothetical long-run equilibrium, where y equals y* and V equals V* (velocity's long-run level).

22 O. Issing: The Monetary Policy of the ECB in a World of Uncertainty, speech, December 1999.

23 Then again there is Duisenberg's refusal to answer a question on the money gap because, in his words, "I do not know precisely what a money gap is" (ECB press conference 3 March 2002)!

24 J. Mazier: M3, Inflation and the ECB, op. cit.

25 The growth of M3 at the time was 4.8 %. During the press conference on 10 May 2001 the ECB announced that "there have been indications that the monetary growth figures are distorted upwards by non-euro area residents' purchases of negotiable paper included in M3…As regards holdings of money market fund units/shares by non-euro area residents…the distortion has become more sizable over recent months and currently amounts to around half a percentage point. In addition, there have been non-negligible upward distortions to the annual growth of M3 as a result of non-euro area residents' holdings of other marketable paper included in M3…Taking into account these upward distortions…it can now be concluded that there is no longer a risk to price stability over the medium term emanating from the first pillar".

26 D. Gros: The ECB's Unsettling Opaqueness, op. cit.

27 L. E. O. Svensson: What is Wrong with the Eurosystem's Money-growth Indicator ..., op. cit.

28 P. Bofinger, op. cit.

29 L. E. O. Svensson: What is Wrong with the Eurosystem's Money-growth Indicator ..., op. cit.

30 C. Bean: An Analysis of the ECB's Monetary Policy Strategy and its Potential Contribution to Growth and Employment, Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 1999.

31 O. Issing: The Monetary Policy of the ECB in a World of Uncertainty, op. cit.

Primary and Secondary Objective and the Definition of Price Stability

Even before the start of the analysis of the monetary dialogues one expects the ECON, being a political body, to show a special interest in the secondary objective of the ECB, because as Wyplosz[32] stated, “price stability is highly desirable, but so is economic growth and full employment”. Therefore it is not surprising that this issue was raised in every monetary dialogue, with an absolute peak on 12 September 2001, the day after the terrorist attacks on New York.

The ECB has from the beginning defined its primary objective but has failed, according to ECON, to do the same for its secondary objective. Chairperson Mrs. Randzio-Plath called the ECB’s definition of its secondary objective *“very vague”* as far back as in April 1999. This view that the ECB has failed to provide a clear definition in turn is said to have diminished transparency and made it even harder for the markets and the public to read the ECB. Furthermore, the ECB is seen to be too hawkish on inflation. The very definition of price stability is said to be too rigid, focussing too much on inflation and making it virtually impossible for the central bank to pursue its secondary objective, certainly when compared with some other central banks (see for instance Table 3).

This definition of price stability could hurt employment because a rise in output is likely to lead to inflation pressures, which in turn would mean that interest rates will rise, leading to lower output and eventually lower employment. The ECON has shown very clearly that it is unsatisfied with the ECB’s definition. On occasion more rigorous threats have been uttered such as the one by Chairperson Mrs. Randzio-Plath, when she wondered “whether we (the ECON) should redefine your (ECB’s) concept of price stability”. The number of times the ECON mentioned this possibility surged during 2003.[33] For example, during the monetary dialogue on 17 February 2003 the following exchange between Mrs. Randzio-Plath and President Duisenberg took place:

Randzio-Plath: “The fact is that – as has already been said – no other central bank imposes such a rigid definition … This makes me very keen to put to you the related question … whether it might be better to leave such a definition to others, as is certainly the case in other countries”.

Table 3
Inflation Targets of Selected Central Banks

Central Bank	Target
Bank of England	2 % (with a symmetric band of 1 % on both sides)
Reserve Bank of Australia	2 – 3 %
Reserve Bank of New Zealand	1 – 3 %
Bank of Canada	1 – 3 %
Federal Reserve System	1 – 3 % (generally assumed)

Duisenberg: “… I am, of course, very happy with the fact that the Treaty gave us the mandate to try to maintain price stability, but that the definition of what price stability is was left to the ECB itself. I hope that future versions of the Treaty will maintain that.”

The ECB rejects the criticism that it has not defined its secondary objective, pointing to its regular statements that the best monetary policy can do to support growth and employment is to achieve and maintain price stability. Some members of the panel of experts reject this definition, on the grounds that monetary policy does have an effect on real variables in the short term, of which fact the Fed is a good example.[34] In practice it is found that the ECB is not overly concerned by the fact that it has missed its target in its first years of existence.[35] It also appears to accommodate temporary shocks, as can be derived from the fact that interest rates do not differ from the levels that would result if the Taylor rule[36] were used, meaning in fact that its monetary policy in practice is much more in line with the Maastricht Treaty than what would be expected from its conceptual framework.[37] It is not hard to see that this, although it might be welcomed, negatively affects the credibility of the ECB as it in fact means that the ECB’s deeds do not match its words.

[32] C. Wyplosz: Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 3rd quarter, 2000.

[33] During the monetary dialogue in the first quarter of 2003 the members of the ECON mentioned the possibility that the politicians could change the ECB Statute four times (and once in the third quarter monetary dialogue).

[34] See, among others, G. A. Horn: An Analysis of the ECB’s Monetary Strategy and its Contribution to Growth and Employment, Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 2001; D. Gros: An Analysis of the ECB’s Monetary Strategy and its Contribution to Growth and Employment, Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 1999; P. Bofinger, op. cit.

[35] C. Wyplosz: Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 1st quarter, 2001.

[36] According to the Taylor rule, the nominal interest rate should be set using the equilibrium real interest rate, the rate of inflation over the previous year, the inflation objective and the output gap. The rule is given by the equation $i_t = r^{eq} + \pi_t + 0.5\,[y_t + (\pi_t + \pi^*)]$ (see also J. B. Taylor: Discretion Versus Policy Rules in Practice, in: Carnegie-Rochester Conference Series on Public Policy, No. 39, 1993, pp. 195-214).

[37] P. Bofinger, op. cit.

Forecasts

The ECON has called for the publication of forecasts because it would help in understanding the monetary policy of the ECB properly and because it would give a clearer picture of the strategy and the horizon of monetary policy. As Bean describes it, the problem with the ECB is that it does not reveal in a transparent manner how all the various indicators that it looks at are implicitly aggregated together in reaching a final decision.[38] This creates confusion, as was illustrated during the September 2001 monetary dialogue, in which Mr. Abitbol, one of the ECON members, raised concerns as "one cannot understand that for two and a half years all the bank's forecasts have been wrong and you can still tell us … that these projections are going to be fine".

For some time, the ECB refused to publish forecasts with a number of arguments, the main one of which has been that publishing an inflation forecast would send the message that a complex, thorough and comprehensive analysis of various indicators carried out by the Governing Council can be summarised in a single number. Furthermore, the ECB was concerned that the general public might misinterpret this figure and see it as the target, expecting the ECB to react accordingly, which in turn would not be consistent with the ECB's principle of clarity as, eventually, it would "obscure rather than clarify what the Governing Council is actually doing".[39]

Changes at the ECB and the Analysis

We have used the ECB's press releases and transcripts of press conferences to find out what changes with regard to communication and transparency the ECB had implemented in previous years. In chronological order they include the following.

- *Further enhancement of the transparency policy.* On 13 April 1999 the Governing Council announced that "with a view to further enhancing the ECB's transparency policy, the Governing Council has today decided to publish all non-confidential legal instruments governing the relationship between the ECB and the euro area national central banks in the Official Journal of the European Communities … The members of the Governing Council regard the transparency of the decision-making process as an appropriate means by which to strengthen the democratic nature of the institution and to increase the public's confidence in its administration".[40]
- *Changes regarding communication strategy.* Up to 15 July 1999 the ECB had somewhat modified its communication strategy, reacting to the criticism that the message conveyed by members of the Governing Council could be and has been interpreted in various ways, making it difficult to read the central bank. As a reaction the ECB increasingly started speaking with one voice, trying as well as possible to communicate one message, even if through many mouths, despite the obvious linguistic problems for example. Furthermore it agreed, and communicated this very strongly, that when changes in monetary policy were apparent the markets should listen only to the President. Moreover the ECB, according to the President and the Vice-president, "changed the tone of the assessment and its presentation" starting from 15 July 1999.[41]
- *Publication of staff economic projections.* In June 2000 the ECB announced that, starting from December 2000, it would publish its staff economic projections for, among other things, real GDP growth and HICP (Harmonised Index of Consumer Prices).[42]
- *Decision to assess monetary policy once a month instead of twice a month.* In November 2001 the Governing Council of the ECB decided effectively to halve the number of meetings in which it assesses monetary policy. This decision was induced by the impression in the Council that the relatively high frequency (compared to the Fed for example) amplified speculation in the markets and led to higher volatility in interest rates and exchange rates.
- *Change in communication.* In its statement following the monetary policy meeting on 7 November 2002 the ECB stated that it had discussed the arguments for and against cutting or raising interest rates. This is something the ECB had not done until then. During the press conference after the meeting of the Governing Council on 7 November 2002 the President of the ECB went on record that this was a change in the way the ECB communicates. He did not want to classify it as a permanent change, but a change nonetheless.
- *Evaluation of the strategy.* On 5 December 2002 the ECB President stated, "We are aware of the comments made here and there and now and then

[38] C. Bean, op. cit.

[39] W. F. Duisenberg: The ESCB's Stability-oriented Monetary Policy Strategy, speech, November 1998.

[40] European Central Bank: Press Conference, 13 April 1999.

[41] European Central Bank: Press Conference, 15 July 1999.

[42] European Central Bank: Press Release, 8 June 2000.

about our two-pillar strategy. We have decided, in the course of next year, to come up with a serious evaluation, not necessarily a change, because we are still happy with our strategy. But we will make a serious assessment and evaluation of the monetary strategy … "[43]

- *Definition of price stability.* Based on the strategy evaluation, the ECB on 8 May 2003 changed the definition of price stability from "a year-on-year increase in Harmonised Index of Consumer Prices for the euro area of below 2%" to "below, but close to 2%".
- *Change regarding the two pillars*. The ECB decided that, from 8 May 2003 onwards, it would present its analysis in two parts: the economic analysis and the monetary analysis. With regard to the monetary analysis (previously the first pillar) the ECB announced it would no longer focus only on M3 but on "a wide range of monetary indicators including M3, its components and counterparts, notably credit, and various measures of excess liquidity". Furthermore, the bank decided to "no longer conduct a review of the reference value on an annual basis".[44]

We shall assess these changes against the background of changes the ECON requested. Some of the requested changes were outlined in the European Parliament's resolution on the annual report for 1998 of the European Central bank, adopted on 27 October 1999 and based on the report of the ECON (Report A5-0035/1999). In this report the Committee called on the ECB to:

1. publish a summary of minutes taken at the meetings of the ECB Governing Council;
2. publish macro-economic forecasts on a six-monthly basis;
3. publish a regular overall report of economic developments in each of the participating euro area countries;
4. make publicly available on an annual basis econo metric models of the euro area economy and the global economy used at the ECB;
5. make clear how monetary policy is intended, as long as the objective of price stability is maintained, to contribute to a balanced and appropriate policy mix, with a view to promoting sustainable growth and employment.

[43] European Central Bank: Press conference, 5 December 2002.

[44] European Central Bank: Press Release, 8 May 2003.

In addition, two other criteria will be included based on the outcomes of the analysis of the monetary dialogues:

6. abolish the first pillar of the stability oriented monetary policy strategy and adopt inflation targeting;
7. relax the existing definition of price stability.

After relating changes that have been implemented by the ECB to the seven criteria above, we derive two seemingly contradictory conclusions. First, the ECB has changed the status quo with regard to five out of the seven criteria, namely criteria 2, 4, 5, 6 and 7. On the other hand, the second conclusion that we can derive from our analysis is that with regard to criteria 2, 5, 6 and 7 the ECB has not met the requirements in full, i.e. the changes were not implemented in the manner the ECON would have liked to see. This is an interesting point to observe. One explanation could be that the ECB intentionally did this in order to avoid the impression that its independence is endangered, i.e. that it gives in to the calls of some political body.

The first conclusion is based on the fact that the ECB has published its economic projections (criterion 2) and econometric models (criterion 4), it has stated that the best contribution monetary policy can make to a balanced and appropriate policy mix, with a view to promoting sustainable growth and employment, is to achieve and maintain price stability in the euro area (criterion 5), it has discarded the reference value of the growth of M3 money supply aggregate (criterion 6) and it has changed the definition of price stability from "below 2%" to "below, but close to 2%" as we have seen above.

After our examination of criteria 2, 5, 6 and 7 in more detail we shall derive the second conclusion.[45]

Publication of staff economic projections has come under severe criticism from the panel of experts and the ECON.[46] Although it met the strongly and consistently expressed wish of the ECON by publishing projections for all requested variables, from the very beginning the ECB made it clear that these projections should not be confused with forecasts. It devalued its projections at the same time as these were published for the first time by stating

[45] The fourth criterion is left out as no criticism (or appraisal for that matter) was found specifically concerning econometric models. This might be the consequence of their detailed and rather technical nature.

[46] See for example L. E. O. Svensson: What is Good and What is Bad With the Eurosystem's Published Forecasts and How Can They be Improved?, Briefing paper for the Economic and Monetary Affairs Committee of the European Parliament, 2001.

that they "do not cover all the information pertaining to the second pillar and do not take into account the information relating to the analysis under the first pillar of the ECB's monetary policy strategy. From this perspective, the staff projections play a useful but limited role in the strategy".[47]

With regard to the fifth criterion, ECON would have wanted to hear from the ECB how it sees its secondary objective as described in Article 105 of the Maastricht Treaty, involving some definition as in the case of the primary objective. The ECB has responded to this on numerous occasions by stating that the best way monetary policy can contribute to the goals described in Article 105 is to achieve and maintain price stability. It should be noted that strict interpretation of this statement means that, by achieving the primary objective, the ECB simultaneously also achieves its secondary objective. This in turn means that its secondary objective is in fact not a separate objective but rather only a derivative from the primary one.

The ECB itself cannot be praised for having been very consistent with its remarks on this subject, adding to uncertainty that already existed. During the monetary dialogue on 18 January 1999 President Duisenberg stated that once price stability is achieved, one should not "change track and focus on other things, in the interest of economic policy in general. Our aim is not only to have price stability but also to maintain it." Just a couple of months later, in April 1999 the ECB lowered its key interest rate by 50 base points, after the analysis showed that the major risk at that time was that the expectations regarding real economic developments were for a downturn. According to Duisenberg this made it possible for the ECB to "pay due attention to the secondary objective of monetary policy of the ECB".

We would like once again to point to the fact that the ECB's interest rates have behaved as if the Taylor rule were being practised. This means that either the ECB is right and its actions geared towards achieving price stability do indeed simultaneously achieve its secondary objective or the ECB is informally looking at the size of the output gap[48] and setting its interest rates accordingly. If the first explanation is the right one, there are no consequences and the ECB should hold to its practice. However, if the second is true, the credibility of the ECB will be seriously damaged and a strong case could be made for more transparency, including publication of minutes of meetings, despite the already stated disadvantages.

In relation to criterion 6 (abolishment of the first pillar and adoption of inflation targeting) the ECB did revaluate the first pillar but it has not moved to inflation targeting.

Finally, regarding the seventh criterion, the ECON's goal was to widen the inflation band because of its supposed rigidity and in order to create more room for the ECB to act in line with its second goal, promotion of economic growth. As we shall argue later on, the ECB, by changing the definition of price stability, has effectively made it possible and very likely that the central bank will act more often to support economic growth. From the monetary dialogues, however, it emerges clearly that the ECON would have liked to see the ECB widen the band within which inflation is permitted to fluctuate from a 2% ceiling now to as high as 2.5% or 3%, something the ECB has not done.

We have mentioned and discussed all the criteria above with the exception of criterion 3 (publication of a regular overall report of economic developments in each of the participating euro area countries or, as it has been referred to, the European version of the beige book). On this one we can be brief. Former President Duisenberg, during the monetary dialogue in November 2000, stated very clearly that "the ECB is not a forecasting agency but a central bank … we take a look at the euro area, not at individual countries".

In Table 4 we have given a total overview of the monetary dialogue "transmission mechanism". In the third column, the ECB's reply is given as one of the following entries: "yes", "no" and "unknown". The criterion as to what to enter each time was the reply given by the ECB in the question-and-answer sessions of the monetary dialogue after the first time the ECON mentioned each subject (we indicate this as the immediate response). This method allows us to monitor and detect changes at the ECB, as we can compare the final answer (change implemented) with the initial position. The third option was introduced to cope with the fact that often the reply cannot be classified a "yes" or a "no". For each of the subjects the entries are based on the following elements.

- The ECB views inflation as a monetary phenomenon and it has stated on numerous occasions that it has no intention of abolishing its first pillar. Therefore, for this subject a "no" has been entered.

[47] European Central Bank: Monthly Bulletin December, 2000.

[48] The output gap is the difference between the actual output growth and potential output growth.

Table 4
Subjects Raised and the ECB's Reaction

Subjects panel of experts[1]	Subjects ECON[2]	ECB reply	Change
Monetary policy strategy[3]	Monetary policy strategy	no	+
The secondary objective	The secondary objective	no	+
Definition of price stability	Definition of price stability	no	+
Minutes of meetings	Minutes of meetings	no	-
Forecasts	Forecasts	no	+
	Econometric models	unknown	+
	Report of economic development for each euro area country	no	-

[1] These subjects have been taken from Table 1, the only change being that the last two subjects that were mentioned separately in Table 1 are aggregated here under one heading (forecasts).

[2] Subjects appearing in this column are the criteria mentioned earlier.

[3] This subject concerns mainly (but not exclusively) the critique of the first pillar of the ECB's monetary policy strategy.

- As for the secondary objective, the entry is based on the comment by the President of the ECB made during the 18 January 1999 monetary dialogue that the ECB should not change track and stimulate the economy once it had achieved price stability.
- With regard to the forecasts, the entry is based on a publication by the European Monetary Institute,[49] wherein inflation forecasts are rejected because of the difficulties in producing them, their adverse effects on financial markets and wage and price setting and of their possible harming effects for the ECB's credibility.
- In the case of the publication of econometric models, the entry "unknown" has been used because this subject was not mentioned during any of the monetary dialogues up to October 1999, when the resolution A5-0035/1999 was adopted.[50]
- Finally, a "no" in the case of country reports is the interpretation of the comment made by the President during the November 2000 monetary dialogue.

[49] European Monetary Institute: The Single Monetary Policy in Stage Three: Specification of the operational framework, 1997.

[50] As an alternative, one could view this subject as a precondition for forecasts (the fifth subject) as those must be based on some econometric model. Thus, if we see the fifth and the sixth subject as complementary we would be inclined to replace "unknown" with "no" in this case. Applying this procedure, however, does not affect the final outcome of the analysis, as in this particular case "unknown" is de facto treated as a "no".

In the fourth column a "+" sign was entered if the ECB had changed its arrangements and procedures with regard to each subject up to December 2003 (we indicate this as the delayed response). A "-" sign represents the no-change situation. These signs were given according to the results of the analysis described above.

From the fourth column it follows that the ECB has met 71% of the wishes of the ECON. To calculate this we have divided the number of "+" signs from the fourth column by the number of subjects raised by ECON, as reported in the second column. Using the same procedure we have calculated the same ratio for the panel of experts. We divided the number of "+" signs from the fourth column by the number of subjects in the first column. This procedure yields a success rate of 80%.

Given the fact that every subject that has been mentioned by the panel is also mentioned by ECON, this strongly indicates that the transmission from the panel of experts to ECON is equal to 100 %. In addition, and supporting this strong correlation, during monetary dialogues members of ECON have regularly referred directly to the briefing papers of the members of the panel of experts. From this we conclude that the panel's contribution to the monetary dialogue is very important. It might even be stated that without it the ECON would most certainly be much less effective.

Predicting Changes

The monetary dialogue seems to be a good predictor of future changes at the ECB. This can be illustrated with the example of publication of the forecasts. In 1998, Duisenberg commented that forecasts would "obscure rather than clarify what the Governing Council is actually doing". In April 1999, during that quarter's monetary dialogue, he made a comment that, "There will also come a moment – it is too early but I personally have no doubt that there will come a moment – when we also like many other institutions will publish our forecasts … but in such a way that they will never become self-fulfilling prophecies." This was the first indication that some changes regarding this issue could be expected in the future. Again, some six months later, in October 1999, in his presentation of the ECB's Annual Report before the European Parliament, Duisenberg remarked that the forecasts would be made public in the course of the following year. In November 2000, before ECON, he finally announced that the ECB has decided to publish what it calls “economic projections for the euro area”.[51]

Another example concerns the definition of price stability. In the monetary dialogue of June 2000, Duisenberg stated that changing the definition would be “a disaster” because it could signal that the ECB no longer cared about inflation and that this issue is “something that I categorically am inclined to withstand and to deny and I will not cooperate in this aspect”. Just a couple of months later, during the September 2000 monetary dialogue, he seemed to have started paving the way for possible change as he indicated that change is possible, saying that, “if the definition were to be changed it will be discussed fully in public and in no way would that infringe on the central bank independence, because ultimately it would still be the General Council of the ECB which takes the decision … However, it would be too early to change it now”.[52]

As we have seen, one of the outcomes of the evaluation of the monetary strategy has been that the definition of price stability has been relaxed. The ECB announced that it would, from that moment on, aim to maintain inflation rates below, but close to 2%. This is a very significant change as it effectively narrows the corridor within which inflation may fluctuate without triggering the ECB into action. Under the previous definition (inflation below 2%) the ECB would not necessarily act if inflation were to fall to say 1.5%. Under the new definition however, 1.5% will induce the ECB to act, as the inflation rate clearly is below, but not close to 2%. This boils down to cutting short-term interest rates in order to drive inflation towards 2%. In the process, a lower short-term interest rate would give a boost to the economy, exactly what the ECON would request. So, in other words, the new definition of price stability enables the ECB to lower its interest rate more often than it would have done under the old definition in order to stimulate economic activity and put inflation just below 2%.

There are indications that, in the near future, the ECB might decide to publish the minutes of the meetings of its Governing Council. While in November 2000 Duisenberg strongly rejected any change with regard to the publication of minutes by saying that, “We (the ECB) do not intend to meet that wish (publication of minutes) of the European Parliament”, during the May 2002 monetary dialogue, when on one occasion the working of the Governing Council after the future enlargement of the euro area was discussed and the publication of minutes was again mentioned, he did not exclude the possibility that, as the Governing Council would become even larger, voting would occur and become normal procedure and that “as a consequence, also … the so-called anonymous balance of votes might be published”.

The possibility that minutes would be published increased even further when Lucas Papademos, the Vice-president of the ECB, remarked that the change of view in the Governing Council “could be reflected in the publication of anonymous votes. This could provide an additional signal to the markets about prospects of changes in the monetary policy” and “personally I would not feel that I would lose my independence if votes were to be announced in a group sense”,[53] which in essence goes fully against one of the ECB’s main arguments against publishing minutes and/or balance of votes. More importantly, this comment shows that the members of the Governing Council do not all seem to have the same opinion on this subject.

Recommendations

The frequency of the ECB’s appearances before the European Parliament exceeds the average of appearances by other central banks before their parliaments.[54] Based among other things on this finding and in relation to how the ECON could improve the monetary dialogues, we think it is obvious that there is no need for more, but rather better hearings.[55]

First, we would recommend to the ECON to demand that the ECB sticks to its Statute and takes a formal vote each time it meets, even if during its meetings it becomes clear that consensus can be reached (in this situation the consensus could simply be replaced by the outcome of 18 votes for and none against). In this case, the argument that voting behaviour cannot be revealed as voting had not taken

[51] The ECON welcomed this, but also issued a warning. Chairperson Mrs. Randzio-Plath called the publication of economic projections “a first step towards greater transparency” and warned the ECB that they will first look at the publication and determine how satisfactory the projections are and that they “will have to be refined and improved over the coming year so that they become economic forecasts in the true sense of the word” (European Parliament: Publication of Economic Projections by ECB a First Step Toward Greater Transparency, Press Release, 21 December 2000).

[52] Note the discrepancy, as the evaluation has been a fully internal process. No public discussion has taken place.

[53] European Parliament: Hearing of the Candidate for the Vice-Presidency of the ECB, 22 April 22, 2002.

[54] J. Lepper, G. Sterne: Parliamentary Scrutiny of Central Banks in the United Kingdom and Overseas, in: Bank of England Quarterly Bulletin, Autumn 2002, pp. 274-284.

[55] Regarding this part we have benefited a lot from suggestions by Charles Wyplosz (see C. Wyplosz: Monetary Dialogue of 12 September 2001, 2001).

place would no longer be applicable, making it possible to build an even stronger case for the publication of minutes.

Second, regarding the issue of restructuring the ECB's General Council, the ECON should get more involved and insist on setting up some sort of monetary policy committee. The reason is that the individual members of the Governing Council in that case would not share collective responsibility. This would also make it possible to build a stronger case for the publication of minutes.[56] It is a fact that one of the main reasons for ECON wanting minutes of the meetings is to be able to say something about the direction of monetary policy actions and that this wish is shared by the general public (as illustrated in press conferences). To avoid the negative side effects, the ECON should request from the ECB (and we advice the ECB to implement this change) that it indicate, after every meeting at which it assesses the stance of monetary policy, whether it has a neutral, tightening or relaxing bias, similar to what the Fed has been practising for some time. This would avoid the negative consequences of publishing minutes and increase the transparency and credibility of the monetary authority, while effectively extracting the same information.

Third, the ECON should be more forceful during the dialogues, for example when the ECB repeats its mantras for the umpteenth time. For example, when the ECB mentions "medium term", it should be pressed to define what this term means as far as the ECB is concerned. This would tremendously improve the bank's transparency and make it easier for the ECON to hold the ECB accountable.[57] A good example is the subject of ECB inflation projections. Instead of being content with the President's remarks when he for example refers to "last available information" or states that the inflation could be higher or lower than expected, the ECON should hold onto this subject. This could be done by a number of follow-up questions demanding that the ECB disclose the last information the Governing Council used in its meeting, whether the members agreed with the staff projections and if not, why not and so on. So far, we have not been able to detect this practice during the monetary dialogues with the ECB.

[56] This interesting point is mentioned in S. Hämäläinen, op. cit.

[57] Unless Milton Friedman was right when he remarked that "from revealed preference, I suspect that by far and away two most important variables in their (central bankers) loss function are avoiding accountability on the one hand and achieving public prestige on the other" (quoted in I. J. M. Arnold: Empirical Essays in Monetary Economics, dissertation Erasmus University Rotterdam, 1995).

Fourth, a dialogue does not have the same meaning as reporting. The ECON could change the title from Monetary Dialogue to Accountability Hearings. This would most likely improve the image of the hearings, which would arguably be a small, but nevertheless not insignificant change.

Fifth, the ECB holds, after every first meeting of the month, a press conference. The ECON should insist that the information given in these press conferences be made public in the Parliament, i.e. it should insist that the ECB scraps these press conferences and make them part of the Accountability Hearings.

Sixth, the members of the ECON should refrain from asking questions on "local themes", i.e. country-specific issues. Apart from giving the ECB an excellent chance to state the obvious, namely that it focuses on euro area-wide developments, it also creates the impression that the ECON does not know what the ECB's task is and what the bank can and cannot do. To upgrade the hearings, the ECON must start by becoming more professional than it is now.

Seventh, while asking questions, the members should include possible alternatives and make the President of the ECB explain why the alternatives they suggested are unsuitable for the ECB, instead of the current practice of not asking follow-up questions (this would of course mean that some procedural changes would be needed regarding these hearings).

Finally, comparing the President's remarks over time, we have noticed that he often contradicts himself. This gives the ECON a rather nice opportunity to confront him with this and demand a more thorough explanation.

Concluding Remarks

Analysis of the ECB's press releases and press conferences led us to conclude that some changes were implemented. When we related the changes to the changes requested by the ECON we concluded that the ECB has met five out of seven specifically defined wishes expressed by ECON. We have found that in 71% of the cases the ECB has implemented changes the ECON requested. In addition, two other facts have been noted. First, the ECB did not always fully comply with the structure or form asked for by the ECON. The ECB could have acted as it did in order to avoid giving the impression that others can influence it, even though the central bank might share the view of the ECON regarding some requested change and is of the opinion that it should comply in full. The other possibility is that the ECB is convinced that there are benefits to be gained from certain changes, but that it has valid arguments to disagree with the ECON on how far changes should go.

For example, if we look at the publication of the inflation forecasts, it is clear that the ECB has not met the wish of the ECON in full. Either the ECB did this on purpose to underline once again that it is independent and cannot be forced into anything (the first option from above) or the central bank is fully convinced that publishing inflation forecasts on behalf of its Governing Council would be disadvantageous (the second option from above). The only way to exclude one of these possibilities would be to take a look at the minutes of the meetings of the Governing Council, as explicit statements or clues might be found there. Not having access to these (yet?) prevents the exclusion of either possibility at present.

Second we note that the monetary dialogue can be used to successfully predict changes. The ECB seems to provide indications on changes that are to come, as for example in the case of the publication of forecasts and the redefinition of price stability. Extrapolating from this finding and assuming that the ECB's behaviour in this aspect will remain unchanged, we will most probably witness more changes in the future. Based on the results from our analysis in this paper we expect to see the anonymous minutes of the ECB to be published in some form in the near future. As a matter of fact, by deciding to provide the arguments made for and against a certain decision, the ECB has made a great step towards the publication of minutes.

Based on this research we conclude that the ECB has shown a high degree of responsiveness to criticism from the ECON. In other words there is some degree of influence running from Brussels to Frankfurt. It is important to note that although we use the word "influence", this should not be interpreted as meaning that the ECB has been put under formal pressure. However, we note that the ECON has taken the opportunity (in the form of discussions on the EU Constitution and the review of the Treaty of Maastricht) to make clear to the ECB that its Statute could very well be changed in order to get the central bank to meet the remaining wishes of the ECON or to meet the partially met wishes in full.

We define the ECON (and therefore the European Parliament) in a broad sense as being the body representing the citizens of the euro area and assume that its preferences reflect those of European voters, a valid assumption as the European Parliament is elected in a general election. Given that there is some evidence that, regarding the amount of pressure from other interest groups, the ECB is in a comfortable position,[58] we conclude that the ECON is the most important factor that influences the ECB.

One could criticise this by arguing that the European Parliament, although democratically elected, does not have much political influence compared, for example, to the ECOFIN Council. We think that the political influence of the European Parliament has increased in recent years, and certainly since the European Commission led by its former President Santer was forced to resign. Granted, the European Parliament does not have the influence or the role of the US Congress. However, regarding the issue of holding the ECB accountable, the ECON has shown itself to be a mature body. We might say that, owing to the fact that it has chosen a typical European approach to holding its central bank accountable and the fact that it goes to considerable length to prepare the monetary dialogues as thoroughly as possible, the role and influence of the European Parliament certainly has increased during past years. Nonetheless, there are various ways open for improvement.

Based on this research we are convinced that the conclusion that the ECON influences the ECB to some degree does not mean that the bank is not as independent as its legal status implies. In this respect one thing should be pointed out: the ECB has shown a healthy attitude so far, indicating that it can deal with criticism and that it acknowledges the fact that it can learn from it. The evaluation of the ECB's monetary strategy is a good point to illustrate this. The central bank made it clear that it was happy with its strategy, but because there were strong signals that the public was not fully satisfied, it nonetheless decided to conduct an evaluation. This shows that the ECB pays attention to what the public thinks and that it acts on it, even when the ECB itself thinks that action is not needed. This not only does not endanger its independence, it increases the credibility the ECB (or any central bank for that matter) needs.

We think that the importance of the European Parliament can increase even further as we have reached the "medium term" no matter how it is defined, allowing the European Parliament to assess the performance of the ECB for the first time. The price to pay for being independent is apparently, and quite rightfully we might add, the obligation to explain and give a full account of actions taken and their outcomes.

[58] P. Maier: The Impact of Politics on Monetary Policy: A Study of the Bundesbank and Other Central Banks, Thesis, Rijksuniversiteit Groningen, 2001, Labyrint Publication.